



MOHAWK AIRLINES INC.



ANNUAL REPORT 1960

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CORPORATION FILE

ERNST & ERNST
PUBLIC UTILITY SERVICES
DALLAS, TEXAS

THE MOHAWK REGION

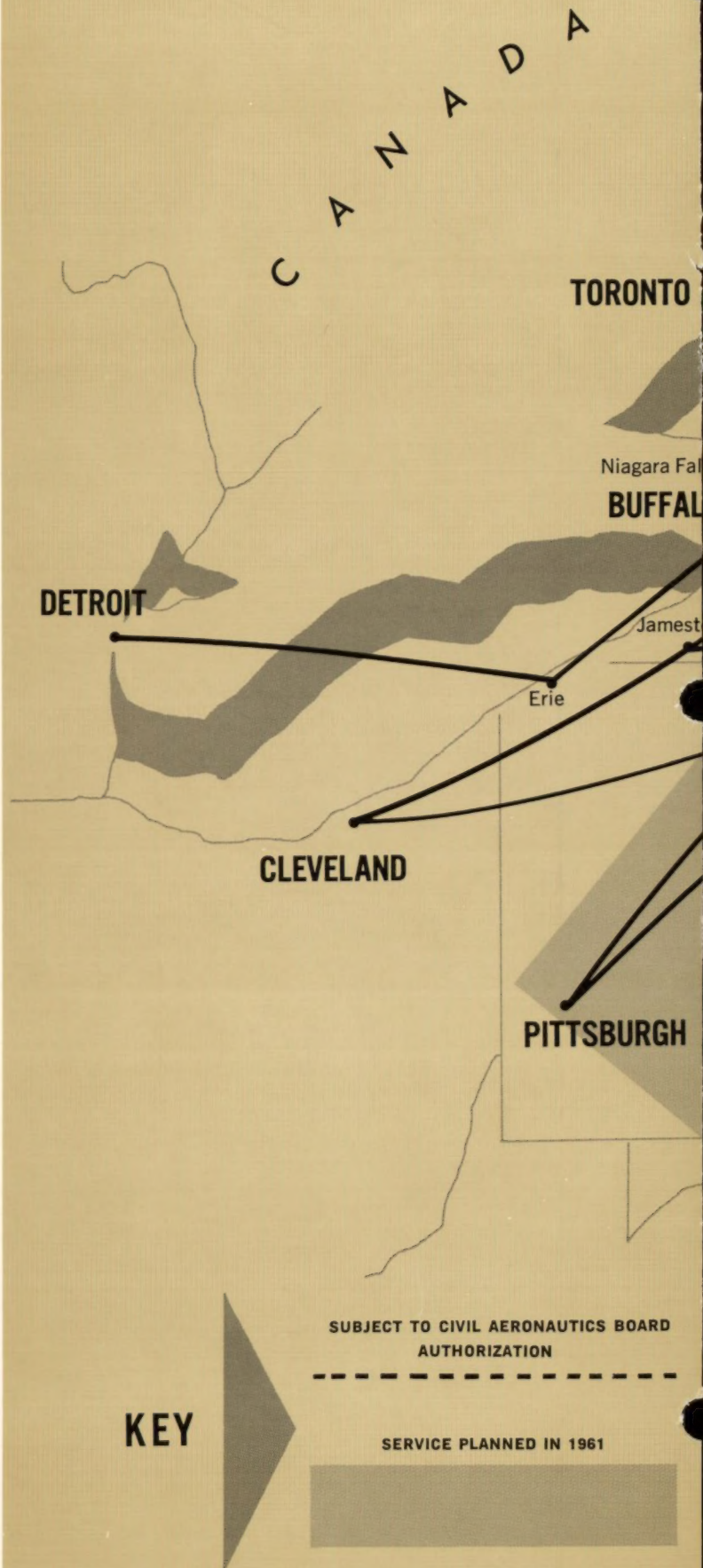
Mohawk Golden Convairs now provide frequent commuting and connecting service to 47 cities in nine states in the industrial Northeast. Applications currently pending early Civil Aeronautics Board action should increase this number to 55 cities by year-end 1961, including first time service to Canada. New cities added in 1960 included Cleveland, Ohio; Providence, Rhode Island; Jamestown and Olean, New York.

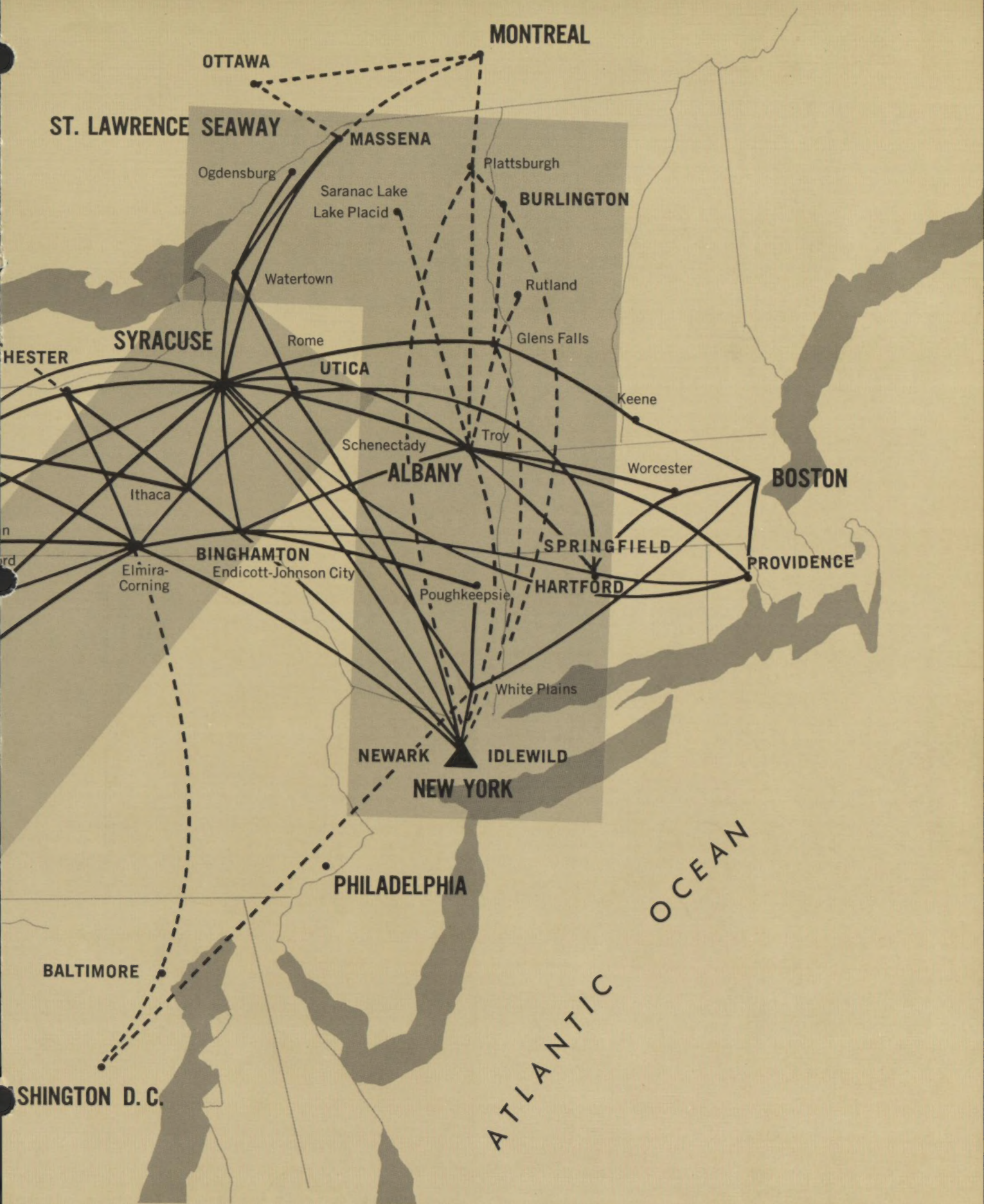
Mohawk finds the northeastern United States a good area in which to live and work. We are proud of the rapid growth of the Company and the increasingly important role it plays in the concurrent development of cities, industries, and the general economy of the area it serves. In 1960 the Company maintained its fine safety record. This progress continues through your confidence, interest in and use of Mohawk's increasing products and services. A different regulatory climate at the Civil Aeronautics Board indicates a greatly improved earnings potential in 1961.

Whether you are a stockholder, customer, or an employee of Mohawk, we are sincerely appreciative of your support and pledge our continuing efforts to improve and expand all Mohawk services.

Robert E. Peach
ROBERT E. PEACH
President

Victor Underwood
VICTOR UNDERWOOD







Mohawk Airlines continued to grow substantially in 1960 in every category save one—profitability. It enlarged its Convair aircraft fleet, continued to expand its route system and added to its aircraft maintenance and engineering efficiency. Unfortunately, the Company in 1960 was forced by a strike, rising labor costs, and added route mileage to return to a temporary mail rate status for which it has a substantial claim due from the Civil Aeronautics Board. This should, when concluded, materially improve the financial results shown in this report. Forecasts and early operating results indicate a profitable 1961.

Management believes that Mohawk's most significant progress factor, and one which promises its greatest potential, is that most of the growth has been on its internal route system and in competitive markets. It has not undertaken to spread geographically along thin traffic routes but has instead concentrated successfully on capturing a constantly higher proportion of the heavy traffic-producing short-haul markets within its own route system which have been served not at all or only by the incidental short-haul services of the trunk carriers. Mohawk believes that the key to a profitable (and therefore necessarily non-subsidized) short-haul airline system lies primarily in a franchise for a heavy traffic density route system and in the Company's ability to penetrate that traffic competitively against the telephone, the automobile, and other airlines.

Mohawk is confident that it has both that route system and that ability, and is continuing to concentrate its corporate energies in so demonstrating. Its management strongly believes that the short-haul air carriers in heavy industrial and prime vacation areas are destined to become **the volume passenger carriers of our time.**

DRAMATIC GROWTH

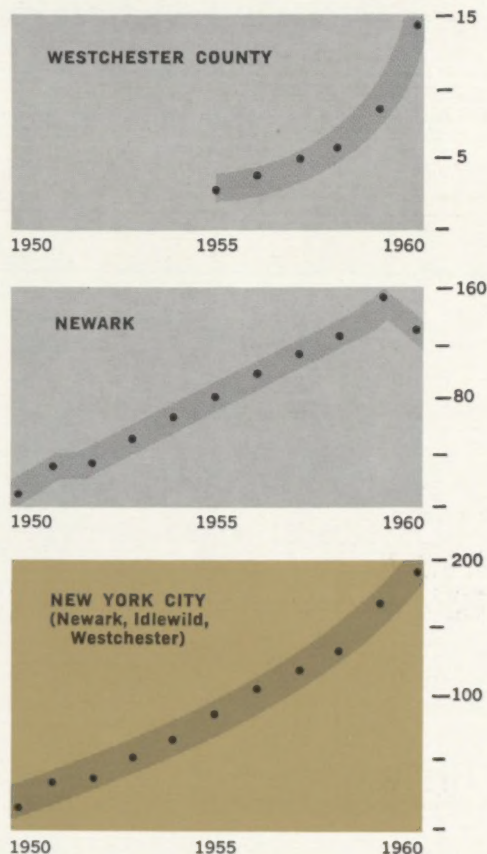
	1950	1960	INCREASE
REVENUE PASSENGERS	55,463	576,756	10 TIMES GREATER
REVENUE PASSENGER MILES	8,841,000	116,096,000	13 TIMES GREATER
MILES FLOWN PER DAY	3,252	20,333	6 TIMES GREATER
CARGO TON MILES	81,084	437,000	5 TIMES GREATER
AIR MAIL TON MILES	23,409	202,000	8 TIMES GREATER
CITIES SERVED	15	45	3 TIMES GREATER
EMPLOYEES	172	1,019	6 TIMES GREATER
ANNUAL PAYROLL	670,509	5,850,000	8½ TIMES GREATER
TOTAL ASSETS	817,845	11,068,915	13½ TIMES GREATER
EQUIPMENT	5 DC-3	14 CV, 7 DC-3	GOLDEN CONVAIRS

IDLEWILD GROWTH

Mohawk commenced service to Idlewild as a long-term tenant in the Eastern Air Lines terminal building in December 1959. Mohawk plans ultimately a three to two ratio of flights split between Newark and Idlewild, where 42,000 passengers boarded Mohawk in 1960. Meanwhile, the Company's unique commuter service at the Westchester County Airport expanded last year by a 71% growth in passenger boardings.

Mohawk's interline sales volume shows dramatic growth not only at New York City but at its western terminals of Detroit, Cleveland (and in 1961 Pittsburgh), where new trans-continental jet services are available. Early recognition of this interline trend prompted Mohawk's entry into the Eastern terminal at Idlewild and is spurring the Company's efforts to ally itself equally closely with its major connecting carriers at other terminal gateways. In this way a Mohawk passenger receives the primary benefit from the "SPECIALIST" services of both the trunk and the regional carrier. Mutual recognition of this philosophy initiated the recently announced proposal to transfer routes between eight cities from Eastern to Mohawk Airlines.

PASSENGER BOARDINGS (000)



MOHAWK Airlines is a SPECIALIST in connecting!

We're **SPECIALISTS** at planning our schedules to meet other airlines — to and from everywhere!

We're **SPECIALISTS** in planning your trip all the way ... by air!



CALL A SPECIALIST
RE 6-3311
OR YOUR TRAVEL AGENT



The SPECIALIST Airline

AS SEEN IN 62
NEWSPAPERS IN 47 CITIES



MISS JOAN BARROWMAN — ONE OF MOHAWK'S FAMOUS GAS LIGHT GIRLS

TO CELEBRATE THE IMMINENT RETIREMENT OF ITS DC-3s FROM SCHEDULED SERVICE, MOHAWK, IN 1960, INAUGURATED DC-3

GAS LIGHT SERVICE

BETWEEN BUFFALO AND BOSTON VIA FIVE KEY INTERMEDIATE CITIES. SERVICE FEATURES STEWARDESSES IN GAY 90'S ATTIRE, REFRESHMENTS, AND A CABIN DECOR REMINISCENT OF THE INTERIOR OF A PARLOR CAR OF THE LATE 1900'S. MOHAWK'S GAS LIGHT SERVICE IS PUBLICIZED WORLD-WIDE AND CONTINUES TO GROW IN PASSENGER POPULARITY. PRESENT PLANS ARE TO CONTINUE THE SERVICE ON A LIMITED BASIS THROUGH 1961.

THE "SPECIALIST" CONCEPT

In 1960 Mohawk employed as a Management Consultant, Mr. Walter Sternberg, an airline executive with extensive experience in sales, services and marketing techniques. With Mr. Sternberg's counsel the traffic and sales department of the Company was reorganized to fit a new sales-service concept under the leadership of Mr. Russell V. Stephenson, Vice President — Sales and Services, and Mr. William J. Mitchell, Assistant Vice President — Market Development. A detailed market analysis was made of all passengers using Mohawk flight services, with particular emphasis on the 50% of those passengers flying more than once a month with Mohawk. The results are currently reflected in the Company's scheduling policies and in its emphasis on improved on-time performance. A "Golden Age of Opportunity" program was initiated in which all Company executives participate. An intensive advertising and public relations program features Mohawk as "The SPECIALIST Airline."

While Mr. Sternberg's services have been retained on a continuing basis, it is particularly heartening that many of the basic ideas thus far employed in this program, such as the Gas Light Service, the "SPECIALIST" concept, as well as many of the key executives, come from Mohawk's own sales-services management team.

Mohawk's management concentration on customer service in 1960 indicates our confidence that we have attained adequate aircraft, plant capability, maintenance performance and financial strength to plan and carry forward aggressively such a program. In our opinion, the Company's most outstanding progress and the most significant contribution to substantial earnings will occur in the sales-service area in the next several years.



Mr. Russell V. Stephenson

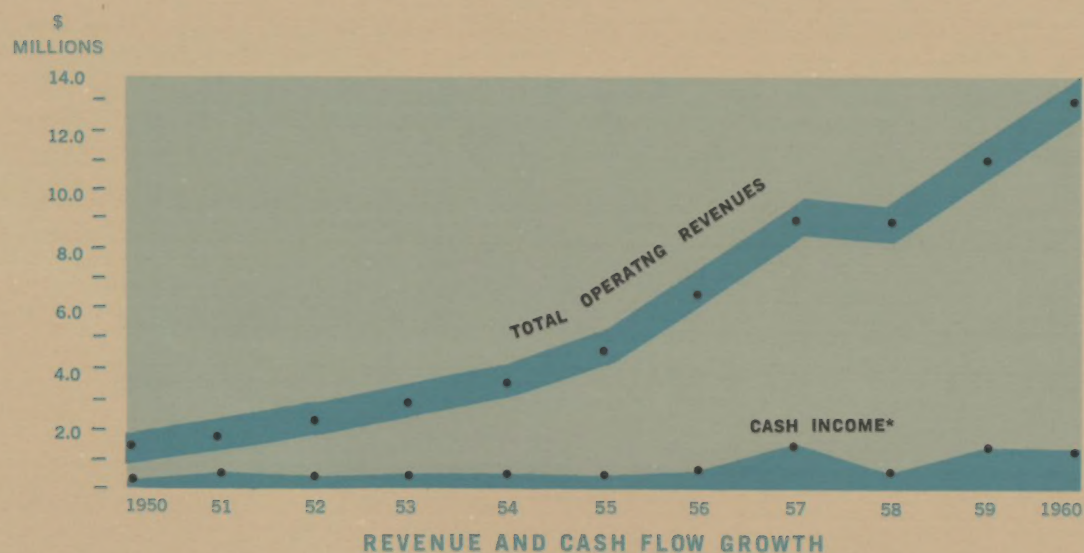


Mr. William J. Mitchell



MOHAWK AIRLINES INC.

FINANCIAL DATA 1950 - 1960



*Operating income plus depreciation and amortization.

INCOME STATEMENT

FOR THE YEARS ENDED DECEMBER 31, 1960 and 1959

OPERATING REVENUE

	1960	1959
Passenger	\$ 9,229,144	\$ 8,256,574
Service mail pay	145,806	107,335
Express	131,043	104,316
Freight	153,787	164,976
Excess baggage	37,003	36,582
Charter transport services	247,328	186,285
Services to outside customers	260,359	48,967
Incidental revenues	38,675	16,654
Total Commercial Revenue	10,243,145	8,921,689
Federal subsidy (Note F)	3,102,913	1,974,810
Total Operating Revenue	13,346,058	10,896,499

OPERATING EXPENSE

Flying operations	3,540,383	2,902,210
Direct maintenance — flight equipment	1,847,921	1,424,062
Depreciation — flight equipment	974,589	675,149
Cost of services to outside customers	156,146	28,732
Total Direct	6,519,039	5,030,153
Direct maintenance — ground equipment	111,740	120,238
Maintenance burden	925,864	743,747
Passenger service	570,663	473,081
Aircraft servicing	1,185,619	978,353
Traffic servicing	1,923,652	1,472,507
Promotion and sales	1,221,153	836,280
General and administrative	859,694	747,397
Depreciation — ground equipment	137,714	58,094
Developmental and preoperating costs	79,136	62,327
Total Indirect	7,015,235	5,492,024
Total Operating Expense	13,534,274	10,522,177

NET OPERATING PROFIT (LOSS)

Non-operating Expense	(188,216)	374,322
Interest and amortization of debt expense	532,544	225,467
Loss (gain) on retirement of property and equipment	(17,068)	(4,434)
Miscellaneous	43	6,874
Total Non-operating Expense	515,519	227,907

NET INCOME (LOSS) FOR THE YEAR (Note F)

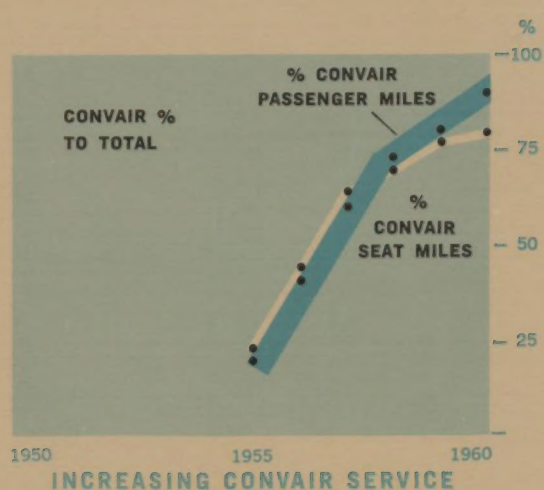
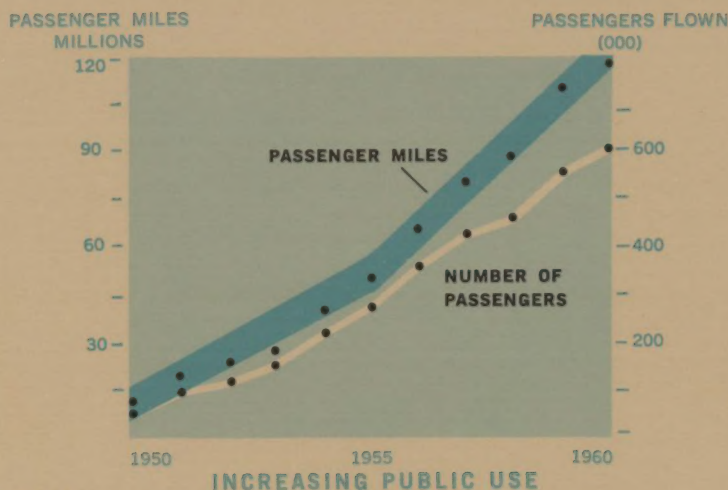
	\$ (703,735)	\$ 146,415
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ANALYSIS OF CHANGES IN DEFICIT

DURING THE YEARS ENDED DECEMBER 31, 1960 and 1959

Deficit beginning of year	\$ 631,810	\$ 778,225
Loss (profit) for the year	703,735	(146,415)
Retroactive mail pay (Note F)	(396,592)	0
Deficit end of year	\$ 938,953	\$ 631,810

The accompanying notes form an integral part hereof.



NOTES TO THE FINANCIAL STATEMENTS

AT DECEMBER 31, 1960

A. CURRENT NOTES PAYABLE AND LONG TERM DEBT

(1) A summary of the outstanding debt at December 31, 1960 consisted of the following:

	Payable in 1961	Payable in Later Years
6% short term bank loan	\$ 200,000	—
6% long term bank loan payable in quarterly installments through 1966	950,000	\$3,100,000
6% note due stockholder payable January 15, 1962	—	308,250
6% conditional sales contract	92,465	156,015
6% conditional sales contract	9,745	28,289
Subtotals	1,252,210	3,592,554
6% convertible subordinated debentures. Retirement required annually from January 1, 1964 through January 1, 1975	—	3,500,000
Totals	\$1,252,210	\$7,092,554

The required minimum annual maturities of debt (including debentures) for the five years following the date of the balance sheet are as follows: 1961, \$1,252,210; 1962, \$1,360,460; 1963, \$823,295; 1964, \$683,799; 1965, \$666,500.

(2) The short term bank loan is secured by pledge of accounts due from other airlines in amounts aggregating \$228,954.

(3) On January 5, 1960 the Company entered into a long term loan agreement with its bank to borrow \$5,000,000 with which to pay its commitment to purchase five new Convair 440 aircraft and to provide additional funds. At December 31, 1960 the Company owed its bank \$4,050,000 under this agreement with remaining payments due in 24 quarterly installments with last payment due December 31, 1966. The agreement classifies the long term bank loan as senior indebtedness and secures the loan by chattel mortgage on all of the Company's airplanes and other flight equipment except for those aircraft acquired in 1960 under conditional sales contracts (Note A-6). Among other conditions, this loan agreement requires that: (a) working capital (defined as exclusive of senior indebtedness and indebtedness subordinated thereto) shall not be less than \$1,000,000 or 11% of operating expenses for the twelve months ended at current balance sheet date; (b) the ratio of debt to equity shall not exceed 1.00 from December 31, 1960 to December 30, 1961 and .80 thereafter. Debt is defined to exclude long term indebtedness subordinated to senior indebtedness. Equity is defined to include capital stock outstanding, surplus and long term subordinated debt and to exclude intangible assets; (c) default in performance of certain covenants contained in the agreement, continuing for a period of 10 days after written notice thereof to the Company by the bank, will permit the bank to declare the notes of the Company immediately payable. At current balance sheet date, the Company has met the above requirements.

(4) 6% note due stockholder in the amount of \$308,250 is due January 15, 1962. This note is secured by chattel mortgage, junior in lien, on part of the same flight equipment as in Note A-3 above and is subordinated to bank loans.

(5) 6% convertible subordinated debentures were issued as of January 1, 1960 in the amount of \$3,500,000. These debentures are subordinated in right of payment to senior indebtedness due bank and to stockholder (Notes A-3 and 4 above). Starting January 1, 1964, and on each January 1st thereafter until final maturity on January 1, 1975, debentures are to be redeemed in amounts equal to 5% of principal amount outstanding as of each preceding January 1st. Additional redemption may be made at the Company's option prior to July 1, 1962 with a 3% premium. The amount of premium to be paid on additional redemptions reduces ¼% each six months following July 1, 1962. Principal amount of debentures are convertible into Capital Stock (common shares) of the Company at \$4.00 per share until January 1, 1963. The conversion price increases materially after January 1, 1963 and is subject to certain adjustments as specified in the indenture.

(6) The Company acquired two Convair aircraft and a Beechcraft aircraft in 1960 under conditional sales contracts. At December 31, 1960 it owed \$248,480 on the Convair contract and \$38,034 on the Beechcraft contract. Payments on these contracts are due in monthly installments with final payments due August 2, 1963 and May 8, 1964 respectively.

(7) The long term loan agreements impose certain restrictions on the financial activities of the Company, principally to prevent payment of cash dividends, as follows:

(a) Bank credit agreement — No cash dividends shall be declared or paid in any year subsequent to December 31, 1958 which (together with total of all payments made since January 1, 1959 on debts subordinated to the bank loans and the amount of principal and interest due on subordinated indebtedness within one year of declaring the dividend) shall exceed 20% of the net earnings of the Company since January 1, 1959.

(b) 6% debentures — No cash dividends shall be declared or paid which (together with all dividends and purchase or redemption of capital stock since December 31, 1958) would exceed 50% of net earnings since January 1, 1959. In addition no dividend shall be paid which would reduce the total of the Company's net worth and debt subordinated to bank loans to an amount less than all debt of the Company exclusive of debt subordinated to bank loans.

(Continued on page 12)

GILFOIL & McNEAL
CERTIFIED PUBLIC ACCOUNTANTS
SYRACUSE 2, N. Y.

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
MOHAWK AIRLINES, Inc.

We have examined the balance sheets of MOHAWK AIRLINES, Inc. as of December 31, 1960 and 1959 and the related statements of income and deficit for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income and deficit present fairly the financial position of Mohawk Airlines, Inc. at December 31, 1960 and 1959 and the results of its operations for the years then ended in conformity with generally accepted accounting principles for air carriers. Except for changes (which we approve) in the methods of inventory valuation and depreciation arising from the 1960 amendments to the Civil Aeronautics Board's Economic Regulations (Notes B and D), the accounting principles were applied on a consistent basis.

Syracuse, New York
March 24, 1961

Gilfoil & McNeal

AUDITOR'S CERTIFICATE

DIRECTORS

EXECUTIVE and FINANCE COMMITTEE



Mr. Underwood



Mr. Miner



Mr. Peach



Mr. Billings



Mr. Daugherty



Mr. Fields



Mr. Sorrell



Mr. Stump

Mr. E. Victor Underwood
Chairman of the Board
Ithaca, New York

Mr. Bertram J. Miner
Chairman of the Executive and
Finance Committee
Executive Vice President
The First-City National Bank
Binghamton, New York

Mr. Robert E. Peach
President
Utica, New York

Mr. Dwight B. Billings
Fitzwilliam, New Hampshire

Mr. Willis V. Daugherty
Chairman of the Board
American Emblem Company, Inc.
Utica, New York

Mr. William J. Fields
Treasurer
Cooperative G.L.F. Exchange, Inc.
Ithaca, New York

Mr. Clyde W. Sorrell
Attorney
Alexander & Green
New York, New York

Mr. Phil D. Stump
Controller
Cooperative G.L.F. Exchange, Inc.
Ithaca, New York

COUNSEL — Alexander & Green, New
York City; Pogue & Neal, Washing-
ton, D. C.

AUDITOR — Gilfoil & McNeal, Syracuse,
New York

REGISTRAR — Oneida National Bank,
Utica, New York

TRANSFER AGENT — Marine Midland
Trust Company of the Mohawk Val-
ley, Utica, New York

DIRECTORS



Mr. Benscoter



Mr. Carver



Mr. Corwith



Mr. Curtis



Mr. Harding



Mr. Link



Mr. Schoellkopf

Mr. Carl A. Benscoter

Vice President
Utica, New York

Mr. John R. Carver

Vice President and General Counsel
Utica, New York

Mr. James C. Corwith

President
Cooperative G.L.F. Exchange, Inc.
Water Mill, New York

Mr. Edward P. Curtis*

Vice President
Eastman Kodak Company
Rochester, New York

Mr. Henry W. Harding

President
Laboratory for Electronics, Inc.
Boston, Massachusetts

Mr. Edwin A. Link

Chairman of the Executive Committee
Link Division of General Precision, Inc.
Binghamton, New York

Mr. Paul A. Schoellkopf, Jr.

Vice President
Niagara Share Corporation
Buffalo, New York

*Elected January, 1961

OFFICERS

E. Victor Underwood

Chairman of the Board

Robert E. Peach

President

Harvey P. Barnard, Jr.

Vice President - Personnel

Carl A. Benscoter

Vice President

John R. Carver

Vice President & General Counsel

Russell V. Stephenson

Vice President - Sales & Services

Remington R. Taylor

Vice President - Maintenance &
Engineering

Frank R. Chabot

Treasurer

William J. Mitchell

Assistant Vice President -
Market Development

Bruce C. McLean

Secretary

Lois P. Hornbrook

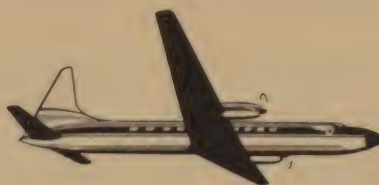
Assistant Secretary

Helen R. Thomas

Assistant Secretary

Arthur D. Williams

Assistant Treasurer



BALANCE

RESOURCES

CURRENT ASSETS

Cash	
Accounts receivable:	
U. S. Government agencies	
Airline traffic (Note A-2)	
Other	
Subtotals	
Less reserve for doubtful accounts	
Net Accounts Receivable	
Inventories (Note B)	
Prepayments	
Total Current Assets	
Investment in and Advances to Associated Companies — at cost	
OPERATING PROPERTY and EQUIPMENT— at cost	
Flight equipment (Note A)	
Ground property and equipment (Note C)	
Construction in progress	
Subtotals	
Less amortization and depreciation provisions (Note D)	
Net Property and Equipment	
DEFERRED CHARGES	
Developmental and preoperating costs	
Discount and expense on debt	
Other deferred charges	
Total Deferred Charges	
Other Assets	
Notes due from officers, secured	
TOTAL RESOURCES	

At
12/31/60
\$ 568,348

1,357,158
1,038,544
179,095

2,574,797
6,381

2,568,416
913,150
412,761

4,462,675

32,543

9,142,740
1,201,725
6,062

10,350,527

3,310,871

7,039,656

114,367

363,057

4,702

482,126

10,099

\$12,027,099

At
12/31/59
\$ 105,564

261,540
858,522
104,534

1,224,596
9,098

1,215,498
767,128
321,077

2,409,267

22,172

10,135,965
1,065,110
36,138

11,237,213

3,012,450

8,224,763

192,579

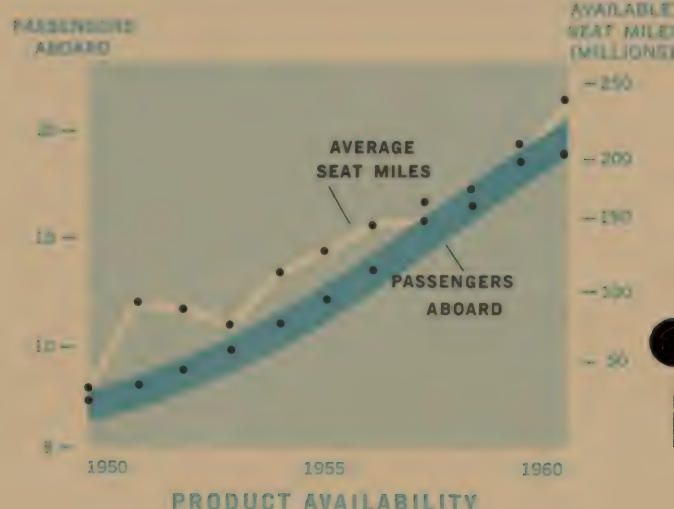
104,766

5,429

302,774

15,999

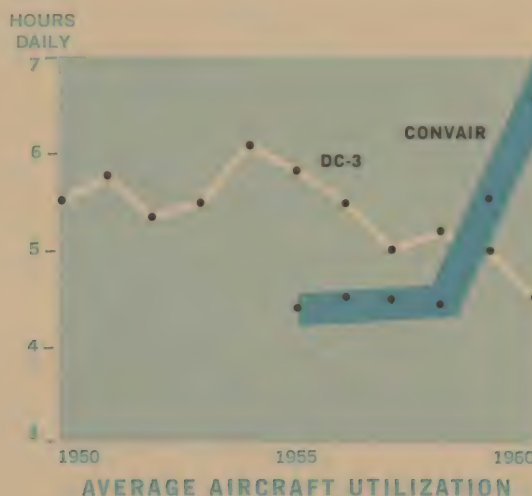
\$10,974,975



LIABILITIES AND SHAREHOLDERS' EQUITY

	At 12/31/60	At 12/31/59
CURRENT LIABILITIES		
Current notes payable (Note A)	\$ 1,252,210	\$ 772,000
Accounts payable:		
General	1,755,935	1,649,715
Airline traffic	313,984	270,273
Collections as agent — transportation taxes and employee deductions	367,429	192,648
Accrued payrolls, taxes and interest	237,923	149,034
Employees' pension trust (Note E)	72,862	71,618
Unearned transportation revenue	92,734	61,726
Total Current Liabilities	4,093,077	3,167,014
LONG TERM DEBT (Note A)		
Notes payable — bank	3,100,000	603,600
Note payable — stockholder	308,250	308,250
Conditional sales contracts	184,304	0
Conditional purchase commitment	0	3,830,000
Convertible subordinated debentures	3,500,000	1,917,500
Total Long Term-Debt	7,092,554	6,659,350
SHAREHOLDERS' EQUITY		
Capital stock — common, \$1 par:		
Authorized — 2,000,000 shares		
Issued — 509,891 shares	509,891	509,891
Treasury stock — 57,220 shares	57,220	57,220
Net Capital Stock Outstanding	452,671	452,671
Capital surplus, arising from excess received over par value of stock issued	1,327,750	1,327,750
Deficit (Note F)	(938,953)	(631,810)
Total Shareholders' Equity	841,468	1,148,611
TOTAL	\$12,027,099	\$10,974,975

The accompanying notes form an integral part hereof.



NOTES TO THE FINANCIAL STATEMENTS (continued)

B. INVENTORY VALUATION

With the exception of expendable parts for DC-3 and Convair 240 aircraft, the Company's inventories are valued at the lower of cost or market.

The Civil Aeronautics Board amended its Economic Regulations on April 30, 1960 to permit establishment of inventory valuation reserves to provide for predetermined losses expected to be suffered from obsolescence and deterioration, provided that the inventories, against which reserves are established, are included at original cost. The Company adopted the valuation reserve for its DC-3 and Convair 240 expendable parts inventory.

The inventories at current balance sheet date may be summarized as follows:

Expendable parts:	
DC-3 and Convair 240	\$737,320
Valuation reserve	58,500
Subtotal	678,820
Convair 440	106,204
Materials and supplies	95,621
Work in progress	32,505
Total	\$913,150

C. GROUND PROPERTY AND EQUIPMENT

The ground property and equipment consist of buildings and improvements including ticket counter installations on unowned land in the amount of \$516,149 and equipment in the amount of \$685,576.

The Company's headquarters and primary maintenance plant are located in facilities leased from the County of Oneida, New York. Terms of the lease with the County stipulate an annual rental of approximately \$168,000 for each of the next 22 years.

D. DEPRECIATION METHODS AND RATES

Provisions for depreciation and amortization are applied on straight-line method at rates that will amortize the cost, less residual values, of the depreciable properties over their estimated useful lives. Depreciation and amortization rates vary from 2½% on various buildings to 100% on airframe overhaul. Renewals and betterments are capitalized and depreciated over the remaining life of the original equipment. Except for aircraft rotatable parts, depreciation reserves are relieved of the full amount established for an asset upon its sale or retirement with any resultant profit or loss reflected in current income statement. Aircraft rotatable parts are depreciated on a group basis and, upon sale or retirement of rotatable asset, the accumulated reserve is charged with the original cost of the equipment less any sale or salvage value realized.

Amendment to the Civil Aeronautics Board's Economic Regulations, issued April 30, 1960, permitted the reduction of estimated residual value of airframes by 50% of estimated value of built-in overhaul, provided that previous requirements for establishing reserves for future overhaul of airframes be abandoned and replaced by amortization of actual airframe overhaul costs over the period to the next systematic overhaul. The Company's conformance to this amendment resulted in increasing depreciation and amortization charges in 1960 by approximately \$37,000 over amounts which would have been charged under methods regulated prior to 1960.

E. EMPLOYEES' RETIREMENT PLANS

Effective as of January 1, 1958 the Company adopted two Retirement Income Plans for its employees. One plan is for the Company's pilots and the other plan for other employees. Under

both plans each participant contributes fixed percentages of his payroll. The Company makes sufficient contributions which, together with the employee's contributions, shall be required to provide the benefits under the plans and to maintain the plans as qualified under provisions of the Internal Revenue Code. The Company is required to fund the past service benefits over a period of not less than 10 or more than 30 years. The amount of contributions required of the Company under these plans for the year 1960 was \$70,180. As of December 31, 1960 the unfunded past service cost of the plans is estimated to be: (1) Pilots \$78,540; and (2) Other employees \$61,600.

In addition a Variable Retirement Plan For Pilots was adopted by the Company effective January 1, 1959. Each participant contributes fixed percentages of his payroll. The Company contribution for the year 1960 (\$32,188) equalled 3% of each participant's monthly salary rate for the preceding calendar year. The Company contribution will be increased to 4% for the year 1961 and subsequent years. This plan does not require funding for past services.

F. RETROACTIVE MAIL PAY

During the period from July 1, 1955 through April 30, 1958 the Company received mail payments under temporary rates. In 1959 the Company filed its claim with the Civil Aeronautics Board for final mail pay covering this period. This claim was settled in 1960 for \$396,592. In accordance with its policy of allocating mail pay to the earliest periods earned the \$396,592 retroactive mail pay was allocated to the year 1958 and is not included in 1960 income.

During the period from May 1, 1958 through March 17, 1960 a permanent mail rate was in effect and the Company will receive no additional mail payments for this period.

Since March 18, 1960, the Company has operated under temporary mail rates. Final payment to return to the Company its breakeven need, plus reasonable return on investment will not be received for this period until the Civil Aeronautics Board has reviewed the results of the Company's operation. The Company believes it is entitled to additional mail pay on its operations for this period. However, under Civil Aeronautics Board reporting requirements, no such amount is included in the Company's financial statement for final mail pay estimated to be receivable for this period.

G. STOCK OPTION PLAN

A Stock Option Incentive Plan for certain key employees was approved by the shareholders on April 30, 1959. The Plan is limited to 50,000 shares of capital stock and is believed to be a restricted stock option under provisions of the Internal Revenue Code. Under the Plan an option may be exercised by a participant at any time within five years after it is granted except that, to the extent not previously exercised, an option shall expire as to one-fifth of the total number of shares originally subject thereto at the end of each year after grant. The purchase price of the stock will be 95% of the fair market value at the date of grant. A participant may pay the subscription price in installments, including interest, over a period not to exceed five years.

None of the options granted April 30, 1959 for 26,500 shares were exercised during 1960 resulting in expiration of options on 5,300 shares. The remaining options for 21,200 shares are exercisable at \$3.444 per share or \$73,013 in the aggregate. On the date the options were granted the market value was approximately \$3.625 per share and the aggregate market value of the 21,200 shares was approximately \$76,850. No further options have been granted.



GROWTH IN SERVICE

EXPANDED MAINTENANCE AND ENGINEERING



Mr. Remington R. Taylor

Mohawk's modern maintenance shops at Utica house the airline's complete overhaul and modification facilities as well as furnishing daily maintenance requirements for its 18 plane Convair fleet. Maintenance costs per available seat mile flown were reduced by 10% in 1960, while only 2.9% of scheduled flights experienced a maintenance delay.

Contract revenues from the maintenance and overhaul of more than 35 large transport aircraft, owned by industrial corporations, grossed \$275,000 last year. The Company specializes in rapid service for customer aircraft, whether major overhaul, modification, or merely a periodic inspection. Mohawk forecasts a doubling of contract maintenance revenue in 1961.

PAGE THIRTEEN



CHARTER FLIGHTS

Another important source of revenue is from Mohawk charter services—200 flights carrying some 5,000 passengers throughout the entire United States and Canada in 1960. Gross sales volume of \$260,000 is expected to double in 1961. Prime customers are business and farm groups, vacationers, and amateur and professional athletic teams (sixteen major Eastern college football teams flew Mohawk in 1960). Mohawk plans to expand further its participation in group military movements, particularly the transport of missile teams between operational sites and their practice firing areas.

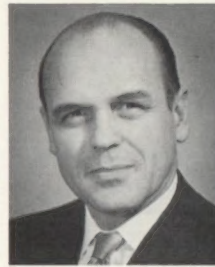


PITTSBURGH-SYRACUSE

In early 1961, the Civil Aeronautics Board awarded a Syracuse-Pittsburgh non-stop route, and including other cities, to Mohawk after more than five years of hearings, re-hearings, and appeals by other applicants. This route award, when activated in May 1961, is forecast to provide first one-carrier service to some 60,000 passengers annually and will create important new communities of interest between the industrial heart of Pennsylvania and Upstate New York.

Mohawk in mid-1960 inaugurated important new services to Providence, Rhode Island, as well as morning-evening commuter non-stops between Westchester County and Boston. Cleveland became Mohawk's second major Western terminal in June 1960 with three daily Convair round trips now linking it to Upstate New York and New England.





Mr. Frank R. Chabot

IMPROVED REGULATORY CLIMATE

In 1960 Mohawk settled its past period mail rate for 1955 – 1958. This settlement of \$396,592 received in 1960 has been allocated to 1958 in accord with consistent accounting practices. The Company operated profitably (net \$146,415) in 1959 under a closed mail rate. It has an open claim of approximately \$400,000 for 1960, to be so allocated when negotiations are concluded in 1961.

Since January 1, 1961, Mohawk has been operating under a so-called “class” rate permitting advance determination by management of how much subsidy its cities will receive under given circumstances. It is designed to eliminate the regulatory hindsight of the Civil Aeronautics

Board and its staff which has tended to stifle the profitability of all local carriers regardless of management ability or route strength for the past decade. The class rate provides a fixed amount for each carrier, variable only by type of flight equipment, number of airports served, and investment base. It provides a sliding scale for flight schedule frequency between cities.

For the first time, the CAB appears to furnish an incentive for management efficiency. If the class mail rate may be taken at face value, Mohawk believes it is a major step toward both profitable operation and subsidy freedom for this Company.

MAJOR ROUTE EXPANSION

On February 15, 1961, Eastern and Mohawk signed an agreement, subject to Civil Aeronautics Board approval, under which Eastern will transfer to Mohawk its route franchise, depicted below, in consideration for Mohawk's undertaking to develop aggressively these sub-

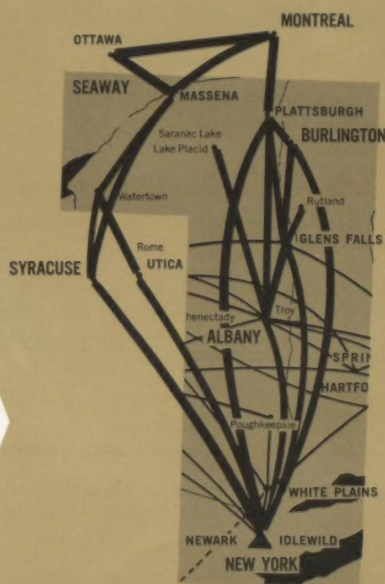
stantial short-haul air markets and the two carriers' mutual undertaking to exploit every possible source of long-haul interline traffic through the New York City gateways.

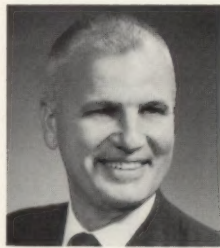
This agreement involves an annual passenger volume of more than a quarter of a million, and gross passenger revenues of nearly \$4,000,000. All Eastern employees will be protected in like positions by the company of their choice, and corporate property obligations in these cities will be assumed by Mohawk. Mohawk presently serves three of the eight cities involved, but on different routes.

Each city has been thoroughly briefed by top management of both carriers as to the public benefits it will receive from Mohawk's “SPECIALIST” service, including better departure times, greater flight frequency, and/or fewer intermediate stops. Public response has been generally excellent and CAB approval is expected in late 1961.

MAY 1961

FALL 1961





Mr. Harvey P. Barnard, Jr.

IMPROVED INDUSTRIAL RELATIONS

Mohawk experienced its first work stoppage in March 1960 when its pilots refused, in violation of their labor contract, to cross lines of picketing stewardesses seeking an initial contract with a pilot-affiliated union. New local pilot union leadership has resulted in greatly improved relationships with this group. No union contracts will open in 1961.

MOHAWK IN THE JET AGE

Mohawk now serves every major terminal in its area except Philadelphia and Washington. Applications to provide service between these communities and both Upstate New York and Westchester County are now before the Civil Aeronautics Board. These applications will be vigorously pressed, as is Mohawk's current (and unopposed) effort to furnish first time one-plane service to Toronto from the Mohawk Valley and New England.

Mohawk added two Convairs to its fleet in 1960. On May 15 when Pittsburgh service starts, four additional planes will bring Mohawk's Convair fleet to 18. On the same date the Company will retire its DC-3s from all but Gas Light and extra section services. Mohawk views the retirement of its DC-3s with much of the sentiment of Bill Mauldin's famous cartoon toward another faithful veteran of World War II—the Jeep.

The Company has firm options for delivery of ten more pressurized transports sufficient to activate the Eastern route transfer and all other new routes pending. Mohawk has no present plans to convert to turbo-prop equipment because of lack of sufficient long-time passenger appeal or improvement in service to offset the large capital investment and substantially higher operating cost.

Meanwhile Mohawk is continuing to monitor both the development of STOL aircraft and particularly that of the smaller jets with turbo-fan power. Management believes that a 60-70 passenger twin turbo-fan, relatively unsophisticated jet may well see service on Mohawk routes in the late 1960s.



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"Commuting is fine on The SPECIALIST Line"

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EXECUTIVE OFFICES:
ONEIDA COUNTY AIRPORT
UTICA-ROME, NEW YORK